



State of Rhode Island and Providence Plantations

State House

Providence, Rhode Island 02903-1196

401-222-2080

Donald L. Carcieri

Governor

June 21, 2007

TO THE HONORABLE, THE SPEAKER OF THE HOUSE OF REPRESENTATIVES:

In accordance with the provisions of Section 14, Article IX of the Constitution of the State of Rhode Island and Section 43-1-4 of the Rhode Island General Laws, I transmit, with my disapproval, 2007 H 5300 Substitute A, As Amended, "An Act Making Appropriations for the Support of the State for the Fiscal Year Ending June, 30, 2008."

This budget puts the burden of the state's fiscal crisis squarely on the backs of Rhode Island families. Specifically, this budget must be rejected for four reasons: It cuts school aid, raises taxes, squanders one-time tobacco settlement funds and includes an ill-considered, and unworkable anti-privatization provision, which blatantly invades – perhaps unconstitutionally – the executive authority.

Cutting school aid hurts children, local communities, and property tax payers. My budget included a 3 percent across-the-board increase in state aid to local schools for every Rhode Island community. It also included a \$5 million increase in college scholarships. This budget eliminates my proposed school aid increase, while similarly rejecting my plan to increase scholarship funding for our young people.

While I have long argued that cities and towns must work harder to reduce costs and find efficiencies, under-funding schools is not the way to achieve this goal. This measure will simply result in school budget cuts that primarily impact Rhode Island children, while putting tremendous pressure on local property taxes. Perversely, this budget gives priority to a new \$113 million courthouse, rather than \$20 million in school aid and property tax relief.

Educating our children well is the key to Rhode Island's future prosperity. This budget fails to support that important priority.

Raising taxes injures Rhode Island families and businesses, while undermining job growth. My budget brought the state's finances into balance while

also maintaining tax reductions that were begun in previous years. This budget actually includes a number of state tax increases. Worse, both the House and the Senate are now entertaining new municipal taxes on cable service, water and real estate transfers. We already have too many taxes.

In fact, Rhode Island taxpayers suffer from the 7th highest total tax burden in the country. Over the last few years, I have worked with the legislature to begin reducing taxes. We had begun to make good progress. Unfortunately, this budget reverses that trend.

By raising taxes, this budget makes Rhode Island less business friendly, thereby putting at risk the economic progress and job growth gains we have achieved in recent years. In short, we cannot tax our way to prosperity, but we can tax our way to slow job growth and a stagnant economy. This budget starts us down that path.

Using tobacco settlement money to fund the operating budget will exacerbate the budget problem next year, while robbing future generations of money that is owed to them. My budget would have used this one-time source of revenue to fund various capital projects. In particular, I planned to use \$67.5 million to leverage another \$270 million in federal matching money in order to fund the maintenance and construction of roads and bridges. These much needed improvements would have been enjoyed by generations of Rhode Islanders.

This budget, by contrast, will increase the amount of tobacco bonds being sold – from \$160 million to \$195 million – to spend entirely on operating expenses. This is a radical distortion of my plans and a huge disservice to Rhode Island taxpayers for two reasons.

First, it will make next year's budget problems worse. By maintaining spending levels this year with money we will not have next year, we are ensuring that the state will start FY 2009 with a budget deficit of nearly \$200 million. This is extremely short-sighted fiscal policy that simply postpones the difficult decisions that must eventually be made to live within our means.

Second, paying this year's bills with tobacco settlement money that was intended to benefit generations of Rhode Islanders simply robs our children and grandchildren of their rightful inheritance.

Impeding the executive branch from implementing savings that can be achieved by enabling private companies to perform state services undermines the

state's ability to reduce future costs. My budget included \$4.4 million in savings next year through the privatization of dietary and housekeeping services at a select few state facilities. Recent bids have indicated that these savings are achievable. I also proposed additional privatization initiatives as part of the solution to the new budget problems that came to light in May.

This budget includes a provision – which was added by the House of Representatives at 11:30 p.m. on Friday night after most Rhode Islanders had gone to bed – designed to prevent the executive branch from privatizing any state function. In short, it is a clear giveaway to the leadership of the state employee unions.

Because personnel benefit costs for state employees are so much higher than similar costs in the private sector, allowing private companies to provide some state services could save taxpayers tens of millions of dollars. But this budget would make that impossible by giving every individual state employee, their union, or other affected parties the right to block us in court.

Worse, this provision violates the spirit, if not the letter, of the Separation of Powers constitutional amendment that was overwhelmingly approved by Rhode Island voters in November 2004. Deciding how state services will be provided is an executive branch function. This budget directly impinges on that executive branch prerogative.

Finally, this provision may ultimately prove unworkable. Independent companies – both for-profit and not-for-profit – currently provide a myriad of state services on the state's behalf. It appears that this provision might force the executive branch to terminate many of these contractual relationships. If so, this anti-privatization provision may have a host of unintended consequences.

As a result of these four provisions, the General Assembly's budget plan will only make Rhode Island's tax and spending problems worse over the long-term. Next year at this time, we will once again be debating why our state faces such dramatic fiscal challenges. Sadly, some of the answers are already clear.

The tobacco money will be gone, but the bills will still need to be paid. My administration's effort to save money by privatizing state services will have fallen victim to the legislative ban. Local communities will be clamoring for extraordinary increases in school aid to cover this year's shortfall. And Rhode Island families and businesses will fear that more tax increases are on the way.

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All this and more lies ahead of us because of the decisions the General Assembly made in this budget.

For these reasons, I strongly disapprove of this budget and respectfully urge your support of this veto.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald L. Carcieri", with a long horizontal flourish extending to the right.

Donald L. Carcieri
Governor